# EARLY AND PARTIAL RETIREMENT

# in Europe and the United States

**Briefing notes for the**

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### I. Introduction.

Over the last several decades, participation[(1)] rates of older men have declined, both in the United States and in other countries of the OECD, especially in Western Europe. This decline has important implications: for labour supply, for expenditure on pensions, and for the sources of financing that expenditure. In the future, the ageing of population structures throughout the OECD area will place greatly increased pressure on the financing of retirement income, and to the extent that this may appear insupportable, there will be a need to seek policies which increase the actual average age of retirement.

But at the same time, the many benefits of a flexible process of retirement need to be recognised. It has brought greatly increased leisure to older people. It has provided an escape from sometimes arduous work for many whose health status no longer supports it. And it has provided a social safety net to those older workers made redundant by technical or structural change and for whom opportunities for employment or retraining are severely limited. These are benefits not lightly to be dismissed.

These notes focus chiefly on the policies and experience in four countries of Western Europe: France, Germany, the Netherlands and the United Kingdom and their comparison with outcomes in the United States. However they are preceded by a brief review of the main trends and of some general issues and they are followed by a number of comments on the lessons for the United States.

**II. Overview.**

For the OECD area as a whole, Chart 1 shows average participation rates for men from 1950 to 1990, broken down into 5 year age groups and Chart 2 shows the difference in participation rates for older men across a selection of OECD countries in 1990. Chart 3 shows participation rates by single year of age for the United States, for 1970, 1983 and 1995 and Chart 4 compares the rate of decline in participation rates for men between the ages of 55 and 75 in different countries. Charts 5 to 8 display the same characteristics for women workers: there are significant differences between the two sexes.

The charts bring out a number of important points.

1. The process of retirement is a relatively long one, at least in terms of the aggregate labour force and especially for the United States. At age 55 almost all men are still in the labour force. By the age of 70 very few are still working. Between their mid-fifties and their early seventies, participation rates for men fall, the steepest declines, at least for European countries, being experienced in the late fifties and early sixties. However this does not mean that, for individuals, the process of retirement is equally flexible. While some individuals may be able to withdraw gradually from the labour force, by reducing hours worked, for many the process of retirement remains an abrupt one, even though the age at which it occurs is variable and has fallen.

2. Across all OECD countries, including the United States, participation rates for older men have declined and the median age of retirement[(2)] has fallen from an OECD average of around 70 in 1950 to just over 60 in 1990. In terms of the labour force this has meant a 20 per cent reduction in the number of workers aged 55 to 59; a 58 per cent reduction in workers aged 60 to 64; and a 35 per cent reduction in workers aged 65 to 69.

3. For men there are substantial differences across countries (Charts 2 and 6) both as regards the levels of participation rates and the speed with which they decline. Among the countries considered here France and the Netherlands have the lowest participation rates for older men aged 55 to 64. The United States participation rates are in the middle range and are comparable with those for United Kingdom and Germany. But the rate of decline is slowest for the United States (at least in 1995: Chart 4) French participation rates for men fall much more steeply than for other countries and their transition from work to retirement is virtually finished by the age of 61. Participation rates in Germany also decline fairly steeply, and for the United Kingdom the transition process is almost complete by the age of 65. For the United States, however, the process is more drawn out and at the age of 70 almost 20 per cent of US men are still working. For women the pattern is similar, although participation rates are lower than for men at comparable ages and, as noted below, the picture of the retirement rate is confounded by the cohort effect of generally rising participation rates for women (Chart 8)

4. There are indications, for the United States and some other countries, that the decline in male participation rates was greater during the 1970s than during the 1980s (Chart 3). Participation rates for men in 1995 were close to those of 1983, but these were significantly lower than in 1970. However this may have more to do with the better labour market conditions which prevailed in the 1980s than with any possible shift in the long term downward trend.

5. For women, the story differs. Female participation rates have been increasing for some time, at least since the beginning of the 1970s, although at all ages they remain lower than those for men. The effect has been focused on different cohorts of women: women borne more recently have shown higher participation rates at all ages than their counterparts who were borne earlier. For this reason, female participation rates for the age groups 50 to 54 and 55 to 59, as well as those for younger age groups, have increased consistently since 1950. The trend towards earlier retirement for women appears on top of this development, at older ages and for earlier cohorts. After the age of 60 the move towards earlier retirement becomes progressively dominant, so that participation rates for women aged 60 to 64 and 65 to 69 have declined: but not by so much as those for men. Somewhere around the age of 60 the two forces cancel each other out and, as Chart 4 shows, average OECD participation rates for women aged 60 to 64 have remained virtually unchanged since the 1950s. In short, although participation rates for older women have not shown the same kind of declines as those experienced by men, neither have they reflected the general secular trend towards higher participation rates for women. The labour force loss is a potential one, rather than actual.

Two other points are relevant, although they are not illustrated in the charts.

6. Life expectancy has increased. But while the increase in life expectancy does not necessarily translate into a proportional increase in the numbers of years in which a person might be expected to work, there is clearly some positive correlation. The decline in activity rates appears to have taken place during a period when improvements in physical health would permit a longer working lifetime. Whether because of the incentives built into current policies, through deliberate choice, or because of worsening job opportunities, individuals have experienced a longer period of retirement rather than a longer period of work.

7. The concept and practice of retirement is itself relatively new. Prior to the 1950s relatively few individuals were able to take a significant period of retirement before they died. Most experienced a period of illness and reduced activity in the interval between a full time job and death, and during this period most were dependent on their children for support, rather than a public or private old-age pension.

These general trends imply that the consequences of policy need to be assessed with some caution. The fact that the trend towards early retirement has persisted for such a long time; its manifestation in almost all OECD countries; and the fact that during the last few decades country policies have been very different, in character and in timing: all suggest that the underlying forces which induce earlier retirement are very strong and may be only partially amenable to correction through changed public policy.

## III Country experiences.

### France.

France is at the other extreme from the United States. Participation rates are lower and decline more abruptly so that by age 61 participation rates for both men and women are less than 10 per cent. This is a consequence of a long, complicated, and vacillating history of early retirement policies which, in France though not elsewhere, have been the responsibility of the unemployment compensation programme (UNEDIC) rather than the retirement pension programme. Since UNEDIC is financed by earmarked contributions from workers and employers, while the public pension system and the supplementary pension programmes are financed by separate social security contributions, this has at times led to tensions not only between the objectives of early retirement programmes (which have tended to be more focused on their effects on unemployment) but also between the role of the state in financing early retirement.

1. The age of entitlement to a full pension under the general programme was 65 up to 1982 when it was reduced to 60 for 37.1/2 years service. Those with less than 37.1/2 years service could continue working, and earning increased pension rights, up to the age of 65, or could take a reduced pension at age 60 (a 20 per cent reduction). Full replacement rates under this programme are now 50 per cent of earnings over the ten best years (shortly to be increased) but are subject to a ceiling. Compulsory occupational programmes add to this basic scheme. They are based on accumulated points, themselves determined by revalued earnings, over an entire career and are not subject to an earnings ceiling. Together these two programmes yield replacement rates of about 75 per cent. More than 80 per cent of pensioners' income is derived from these two programmes.

2. However very few French men and women reach the age of full normal retirement: most retire early under a variety of programmes whose shape and form have varied over the years. Replacement rates under these programmes are relatively generous, and may be higher than those provided under a pension. Some of these programmes have now been abandoned, with the reduction in the age of retirement, although there remain significant numbers of retirees who continue to benefit from them. The main public programmes now in force are the following:

(a) Progressive early retirement. For workers aged 55 and over who shift from full- to half-time work. Benefits amount to 30 per cent of the foregone half wage.

(b) National Employment Fund (FNE) special allowance. For workers 56 years and 2 months and older in the iron and steel industry who are made redundant.

(c) Disablement and incapacity. For workers 60 and older with 100 per cent disability. Benefits provided amount to the full pension and are provided by the social security Ministry.

Previous arrangements, which were abandoned with the introduction of a lower retirement age in 1982, included income support pensions for workers 60 and over who left the labour force, whether because of redundancy or resignation, and solidarity contracts under which firms agreed to replace redundant workers with a substitute from the unemployed (for at least one year). Benefits under these programmes were in the range 60 to 70 per cent of previous earnings. Although they have now been closed to new entrants, they account for a significant proportion of existing retirees. It should be noted that, because of the generosity and availability of other exit pathways, disability pensions have so far accounted for only a small proportion of total early retirements (7.1/2 per cent in 1988). Total beneficiaries under early retirement programmes are shown in the following table.

| **FRANCE, 1988** | (000's) |
|---|---|
| **Total beneficiaries under preretirement arrangements** | |
| Guaranteed income: dismissal | 84.8 |
| Guaranteed income: resignation | 135.1 |
| National employment fund | 186.2 |

| | |
|---|---|
| Solidarity contracts: preretirement | 18.5 |
| Solidarity contracts: gradual preretirement | 8.5 |
| TOTAL | 433.2 |
| of these: | |
| programmes covering persons aged 55 to 59 | 213.3 |
| programmes covering persons aged 60 and over | 219.9 |
| TOTAL | 433.2 |

Source: Guillemard, A-M in Kohli, Rein et al.

**United Kingdom**

1 Pensions are awarded in two tiers:

(a) A flat rate national insurance pension available at age 65 for men, 60 for women, with a replacement rate equivalent to 19 per cent of the average earnings of a manual worker;

(b) either a state earnings related pension (SERPS), an occupational pension (which has to be better than SERPs), or a personal pension. For occupational pensions, pensionable age may be no higher, but may be lower than the SERPS age: other conditions must be at least as good as SERPS. SERPS provides a replacement rate of 25 per cent of the best twenty years, scheduled to fall to 20 per cent of lifetime earnings by 2009.

Together these two programmes provide a replacement rate of around 40 to 50 per cent of previous earnings.

2. There are no specific early retirement programmes as there are in France, but early retirees may take advantage of:

(a) Invalidity

(b) Unemployment compensation

(c) Occupational programmes.

A former programme, the Job Release Programme, was closed to new entrants in 1988, and existing beneficiaries will gradually decline.

3. The earnings test has been abolished: pensioners may now earn income from work without a reduction in benefits.

4. The invalidity benefit provides a benefit on receipt of a medical certificate of incapacity to work, roughly equivalent to that of the national insurance pension but with the additional advantages that (a) it can be combined with other benefits (b) it carries significant tax advantages, and (c) it can be continued up to 70 for men, 65 for women. The invalidity pension does not take account of the chances of actually finding a job. There has been a substantial increase in the number of workers drawing an invalidity pension, particularly for those over 65. One-half to two thirds of invalidity pensioners also draw occupational pensions.

5. The long-term unemployed also qualify for unemployment assistance and, if they are over 60, receive a higher rate of benefit and are not required to register for work. This acts as a bridge to receipt of a full pension. But it is means tested, and may be reduced if the beneficiary is in receipt of an occupational pension.

6. About 50 per cent of male manual workers (18 per cent of females) contribute to an occupational pension: this can be combined with other benefits, notably invalidity benefits and (formerly) the Job Release Scheme. Benefits from occupational pensions are generally higher than those from the National Insurance pension, especially for higher paid white collar workers. ( see Table page 9)

**UNITED KINGDOM**

**Benefit status of men aged 60 to 64 not in employment**.

| Status | Per cent of all men in age group | Per cent with occupational pension |
|---|---|---|
| Unemployed | 32 | 53 |
| Invalidity benefit | 28 | 54 |
| Job release allowance | 12 | 50 |
| Long-term supplementary benefit and not unemployed | 6 | |
| Inactive occupational pensioners | 17 | 100 |
| Other | 6 | |

Source: Laczo, F and Phillipson, C in Kohli, Rein et al.

**Germany**

1. The normal age of retirement in Germany is 65 for both men and women. But a large proportion of workers effectively retire before this age: by 1996 the average age at first receipt of a pension was 59.7 for both sexes. For 40 years of contributions, the net replacement rate was 63 per cent in 1989. A range of different provisions contribute to this discrepancy between actual and nominal age.

2. Disability. Following a decision by the social court in 1976, eligibility for a general disability pension has been based on whether or not there was any work which the disabled person could do: i.e., the labour market situation was explicitly to be taken into account and became an important feature of claims, to the extent that it took up some of the task covered by unemployment compensation. By 1988 almost one-third of all new entrants to the pension were classified under this heading. The pension requires a prior history of three of the last five years in employment. Just under half of all new disability pensions for men are awarded to workers in the 55 to 59 age group, for whom no other source of early retirement is readily available. But the planned reforms for 1999 will probably abolish the labour market considerations.

3. Long-term unemployment. Workers who reach the age of 60 with a contribution record of at least 15

years and a period of at least one year's unemployment in the last eighteen months become eligible for a pension. This provision has existed since the mid 1950s, and there have been no changes in its rules. However the number of new retirees taking advantage of this means of exit has increased and in the late 1980s it accounted for 13.1/2 per cent of new pensioners.

4. Flexible retirement. From 1972, workers who had reached the age of 63 with 35 years of contributions could take retirement. The programme also included special terms for the handicapped who could take retirement from age 62.

5. Occupational and company pensions. Most occupational pensions follow the lead of the public pension system, granting early occupational pensions to workers with entitlement to an early public pension. About half the labour force are covered by occupational schemes.

6. There are in general no specific reductions in benefits associated with these special provisions. However the amount of the pension is reduced both on account of a lower number of contribution years and because of the lower final earnings. Company schemes operate an actuarial reduction, amounting on average to about 6 per cent per year of earlier retirement (i.e., below 65).

**GERMANY, 1989**

**Male entrants to the public pension schemes by type of pension**

| Programme | Per cent of new entrants |
|---|---|
| Occupational disability | 6.2 |
| General disability | 30.8 |
| Unemployment at 60 | 13.6 |
| Handicapped at 62 | 11.3 |
| Flexible retirement | 19.1 |
| Normal at 65 | 18.7 |
| Over 65 | 0.2 |
| TOTAL per cent | 100 |
| TOTAL (000's) | 339 |

Source: OECD, 1995a

**United States**

1. Social security provides full retirement benefits at age 65, with earlier benefits available from age 62 onwards discounted at the rate of 6.7 per cent for each year of earlier retirement. Beyond age 65 benefits are increased by 4 per cent for each year of deferred retirement. The system is biased strongly towards low income earners because of the benefit formula: but overall, and for workers on average incomes, replacement rates are of the order of 30 to 40 per cent of final income. There is also an earnings test,

varying according to age, which reduces the value of benefits in response to earnings. The earnings test disappears at age 70.

2. However over half the workforce is also eligible at retirement for a company or enterprise pension, and these frequently form a bridge between early retirement and receipt of a (discounted) social security pension at the age of 62. In 1980-81 over one-third of new entrants to social security at age 62 had left the labour force sometime earlier, and at age 62 nearly 60 per cent had exited.

3. The other main pathway to early retirement is the disability programme. The number of disability awards increased by 62 per cent between 1965 and 1987.

4. A high proportion of older workers in the United States work part-time after leaving a career job.

**The Netherlands**

The Netherlands is notable for the high proportion of older workers receiving disability pensions, in comparison with the relatively small proportion who receive unemployment related early retirement. For 1990, including estimates of the numbers on early retirement programmes:

**The Netherlands, 1990**

**Men aged 55 to 64 by labour force status**

(as per cent of population in each age group)

| Labour force status | Aged 55 to 59 | Aged 60 to 64 |
|---|---|---|
| Employed | 54.9 | 21.1 |
| Social employment scheme | 0.9 | 0.4 |
| Disabled | 31.3 | 37.7 |
| Partly disabled/unemployed | 1.8 | 1.0 |
| Early retired | 3.9 | 26.5 |
| Social assistance | 0.4 | 0.4 |
| Unemployed | 4.6 | 8.7 |
| TOTAL | 97.8 | 95.8 |

Source: OECD 1995a

The second table shows the growth in the different programmes:

**The Netherlands, 1980 to 1989**

**Male beneficiaries aged 60 to 64: various programmes**

(as per cent of male population aged 60 to 64)

| Year | Disability: private | Disability: public | Other disability | Unemployment insurance | National assistance | Early retirement |
|---|---|---|---|---|---|---|
| 1980 | 31.7 | 3.7 | 5.1 | 4.6 | 0.8 | 7.0 |
| 1981 | 32.3 | 4.3 | 5.1 | 4.8 | 0.9 | 8.5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 1982 | 32.4 | 4.8 | 4.9 | 5.4 | 1.0 | 10.0 |
| 1983 | 32.5 | 5.2 | 4.9 | 7.2 | 1.1 | 13.6 |
| 1984 | 32.0 | 5.4 | 4.9 | 8.7 | 1.4 | 16.8 |
| 1985 | 31.6 | 5.6 | 4.8 | 9.5 | 1.6 | 21.3 |
| 1986 | 30.8 | 5.5 | 4.6 | 9.5 | 1.8 | 25.4 |
| 1987 | 30.1 | 5.1 | 4.6 | 8.2 | 2.0 | 29.5 |
| 1988 | 29.5 | 5.2 | 5.0 | 7.3 | 2.2 | 33.3 |
| 1989 | 29.1 | 4.8 | 4.9 | 6.6 | 2.0 | 35.3 |

Source: OECD 1995a

Thus for the 60 to 64 age group of men, and in 1989, 83 per cent received some kind of pension: over one-third of the population in this age group is received a disability pension: another one-third is received an early retirement pension.

As far as disability benefits are concerned, there are a number of reasons for this preponderance. The concept of disability is vague, and takes fully into account whether or not the recipient is able to find a job. This latter condition implies that a suitable job must be available. Several commentators have remarked that the disability programme has taken on the character of benefit to the long-term unemployed. Second, benefit rates under disability are generally higher than under unemployment compensation, and can last longer. Third, disability is financed by the state, which gives firms an incentive to place redundant workers on disability. Although reforms have been attempted in the past, the growth in numbers on disability has been very rapid. But the government is now in the process of tightening conditions and abandoning the labour market criteria.

As far as early retirement is concerned, the growth in numbers has been the outcome of negotiations between workers and employers, both of whom have seen an advantage in replacing older workers by the younger unemployed. Benefits are also rather generous. They provide 80 to 85 per cent of last earnings, employer and employee both continue to pay contributions to a pension, and the benefits can last until the age of 65. However they require a certain length of prior contributory service, usually 10 years.[3]

**IV Implications for the United States.**

Towards the end of their lives, many people wish to enjoy a prolonged period of leisure, and one way or another, at least in Europe, many of them have also found the means to do so. Many other people may be obliged to take early exit, mainly because of the difficulty of finding acceptable jobs in a labour market which has experienced an extended secular increase in the level of unemployment. For almost all people there will be a trade-off, between their income as retirees and the age at which they leave the labour force. The trade-off is influenced not only by their access to public early retirement programmes, but also by their access to private occupational retirement schemes, by their personal wealth, including housing as well as financial assets, and by the state of their health and by its relationship to the nature of their usual occupation. There are signs that individuals respond to the magnitude and nature of the incentives which they face, and that their response is likely to differ according to whether they are low income earners in manual jobs, high income earners in professional jobs, or middle income earners. Low earners may wish to retire early but may not have the means to do so: high earners may feel content to continue working for some time, even though they have the means to do so: but middle income earners may have both the means and the incentive to retire early. The issue applies equally to men and to women, but for women has become confused by the generally lower level of labour force participation at all ages and by the cohort-based rise in participation rates over the last several decades. Nevertheless, in the United States as elsewhere, the move towards earlier retirement has been substantial and prolonged.

The issue has become an important one because of the expected increase in the proportion of the population of retirement age -- however defined. In the United States the proportion of the population over the age of 60 is expected to rise from 16 per cent in 1990 to 28 per cent in the year 2030. For the OECD area as a whole, the comparable rise is from 18 per cent to nearly 31 per cent. This implies an almost pro rata increase in the cost supporting the dependent population of retirees, even if retirement ages are maintained at the current level. Such concerns apply whatever the source of financing retirement income, whether from public programmes, company schemes or private retirement schemes, or from personal savings. It also applies whether or not the revenue required to maintain this support derives from social security contributions, from tax-based schemes or tax concessions, or from personal savings, and whether or not the contributions involved are those of employers, employees or the state. Earlier retirement means not only a loss of revenue but also increased pension outlays, and so has a double effect. Conversely, an increase in retirement age benefits both the revenue and the expenditure side of the accounts.

As far as public policy is concerned, two comments are in order.

First, it is clear that public policy matters: the differences in the participation rates of older workers, especially across the countries considered here, are more or less what might be expected from the scope and generosity of early retirement provisions. But public programmes are not the full story: much also depends upon personal savings and on company retirement programmes and the way in which they integrate with the public programmes.

Second, it is also clear that in Europe at least, many of the early retirement pathways have been aimed at more than one objective and that attempts to mitigate the already high levels of unemployment have influenced substantially the development of early retirement programmes. Where unemployment is lower than elsewhere, where occupational and company schemes play a large part in the provision of retirement incomes, or where the labour market situation is not explicitly taken into account in establishing early retirement eligibility -- as is largely true of the United States and the United Kingdom -- retirement ages are higher than elsewhere.

Finally it should be noted that flexibility in the retirement process -- although not the average actual age of retirement -- is a social policy objective worth pursuing in its own right. Individuals approach the end of their working lives with a variety of different needs, expectations and capacities. To impose a rigid retirement pattern on those who, because of health, arduous occupation, the downsizing of their firm, or incapacity for retraining do not have the personal means to adjust imposes considerable hardship. Conversely, it deprives the community of the benefits of deferred retirement among those who are not allowed, or find it too costly, to continue working.

The task for public policy is thus both difficult and delicate. It must try to halt, and if possible reverse, the trend towards lower retirement age in order that the forthcoming ageing of population structures should not impose costs on the working population which are perceived as insupportable. Second it must preserve access to flexible retirement ages for those whose with health problems and equally for those who wish to continue working beyond normal retirement age. What it should not do is to confound the problems of high unemployment rates among older workers with those related to retirement. To do this may require some simplification of the programmes and rules: it will certainly require greater transparency.

The following notes draw some implications for the United States from the country experiences described above. They comment on the main pathways of withdrawal from the labour force, comparing in particular the differences between selected countries in Western Europe and those of the United States.

**Early retirement.**

The normal age retirement for men in Europe is now 65, the same as in the United States, the exceptions being France, where retirement is at 60 for 37.1/2 years of service, and Italy where retirement age is 60. Denmark and Norway have higher retirement ages of 67. Most countries however offer earlier retirement, up to five years before the normal age, on a reduced pension and also an increased pension for deferred retirement. And a number of countries are proposing to increase retirement age in the future, in particular in order to bring the retirement age for women into line with that for men (the United Kingdom). The United States has legislated increases in the normal age in steps to 67 by 2022. Given the large numbers of individuals who retire before the normal age, there is little to suggest that the United States should modify its plans. But there may be a case for increasing both the reduction for early retirement and the bonus for deferred retirement, as an incentive to increase the actual average age. In the United States the reduction amounts to 6.2/3 per cent per year of early retirement, starting from age 62. This compares with 5 per cent in Belgium, 6 per cent in Finland, 5 per cent in France, 8 per cent in Spain and 6 per cent in Sweden. Although in principle these are "actuarially fair" reductions, they do not take into account the full social consequences of large numbers of early retirees, especially in view of future ageing populations, and the reduction rate may need to be increased.

**Unemployment related early pensions.**

Many countries also offer what are equivalent to early pensions to older workers (usually 60 and over) who are long-term unemployed (i.e., over one year), in particular Denmark, Finland, Germany, Ireland, the Netherlands and the United Kingdom. France offered a similar programme for those made redundant or who voluntarily resigned, but abandoned the programme following the reduction in the retirement age to 60 in 1982. Such programmes were an explicit reaction to the rise in unemployment and recognised the low probability that unemployed older workers would in fact find another job. In general they offer benefits comparable to those of a pension, without any reduction when a pension is finally claimed. The United States does not offer such a programme, largely because it has no comparable programme of unemployment assistance to the long-term unemployed. There is a case that it should do so, mainly on social rather than economic grounds: the long-term unemployed over the age of 60 are unlikely to find work, they constitute a demand for assistance from public funds (unemployment or social assistance in Europe, public welfare in the United States), and they require a bridge between becoming unemployed and receipt of a pension at the age of 65. However the benefit should be means tested and no earnings should be allowed.

**Disability.**

All European countries provide a disability benefit, sometimes in relation to those who are unable to work in their particular occupation, sometimes in relation to those who are unable to work in a job of any kind. The benefit is also graduated according to the degree of disability, which entitles the recipient to a partial benefit. A feature of a number of European schemes is the extent to which labour market conditions are taken into account in determining disability: especially in the Netherlands and in Germany this is the case and it has led to rapid growth in the number of disability pensioners, many of whom might strictly be better classified as unemployed. Since benefits payable under a disability pension are usually higher than those paid under unemployment assistance, there is an incentive for the unemployed to be classified as disabled rather than unemployed. In the United States Disability Insurance has had a chequered history and appears to have led to some reduction of labour supply by older workers: but the magnitude of this effect appears to be uncertain, and in any case is much less than European countries which take labour market conditions into account and for whom disability is now a major pathway for exit from the labour force. The incidence of disability pensions among older workers in the United States is much lower than elsewhere:

**Invalidity benefits among older men in 1990**

**(as percentage of population in each age group**

| **Country** | **Aged 55 to 59** | **Aged 60 to 64** |
|---|---|---|
| Belgium | 9.5 | 11.7 |
| Denmark | 11.2 | 19.5 |
| Finland | 26.2 | 35.2 |
| Germany | 14.1 | 21.7 |
| Italy | 8.7 | 14.9 |
| Netherlands | 25.8 | 29.1 |
| Norway | 29.2 | 50.5 |
| Sweden | 16.0 | 34.3 |
| United Kingdom | 11.8 | 19.1 |
| United States | 7.4 | 10.7 |

Source: OECD 1995

If there is a lesson to be drawn from these figures, it is that labour market prospects should not be taken into account in determining disability: if they are, unemployment and disability will become confused and disability will become a major pathway for exit from the labour force. On the other hand, an earnings test should be applied (it would be ridiculous to pay a disability pension to someone who was working) but, conversely, receipt of a disability pension should include contributions to social security so that the eventual pension is not compromised.

**Enterprise and occupational pensions.**

The coverage of occupational or company pension schemes varies across both European countries and the United States: in some countries, such as France, they are mandatory; other countries such as the United Kingdom rely on extensive private sector arrangements which nevertheless leaves a substantial proportion of the workforce uncovered. Such schemes usually allow for early retirement on a reduced pension and the figures for the United Kingdom quoted above suggest that many early retirees are also receive a company pension. They frequently also provide for invalidity pensions, often parallel to those provided by the state (although this is less frequent in the United States and is often associated with separate invalidity insurance). They may also be associated with redundancy agreements negotiated between the social partners. The existence of such schemes clearly alters the incentive towards early retirement.

**Partial early retirement.**

Norway, Finland and Sweden operate partial pension systems which supplement the incomes of older workers reducing their activity from full- to part-time work. The pension payable represents a relatively high proportion of lost earnings, especially on a net basis after tax is taken into account. However only in Sweden has the scheme attracted significant numbers of older workers, and Sweden is a country with a high proportion of part-time workers at all ages. There are significant difficulties in the administration of such schemes, especially those of ensuring that beneficiaries have in fact reduced their hours of work.

In 1973, Norway became the first country to introduce a pension designed to allow partial retirement. However, the partial pension is payable only after the normal retirement age of 67 and thus affects relatively few workers. Sweden has 20 years' experience with partial employment programs, and has done the most of any country to encourage partial retirement. Swedish workers can combine part-time work with a part-time pension, facilitating gradual withdrawal from the labour force, and that is commonly done by workers aged 60 to 65. Partial retirement is available both for employees and the self-employed. Partial retirement benefits are available to older workers who have reduced their working hours. Workers have considerable flexibility in how they reduce their hours. They can, for example, work part-time every day, or full-time every second day, week or month. Partial retirement can be taken three ways:

(a) Between ages 60 and 65, a partial early old age pension may be received that combines part-time work with a partial pension. Between 1960 and 1993 the only alternative to full retirement was a half pension. Since July 1993, it has been possible to also draw a one-quarter or three-quarters pension. An early partial pension causes the full pension to be reduced when it is received at full retirement but continuing part-time work up to age 70 increases the pension.

(b) A disability pension can be combined with work. Between 1970 and 1993, three forms of disability pension were available: a full pension, and for those with some ability to work a two-thirds or one-half pension. Starting in 1993, a one-fourth and three-fourths pension were also available but the two-thirds pension was no longer offered.

(c) Since 1976, a partial pension has been available to workers aged 60 to 65 with a replacement rate of 65 percent. Work had to be reduced by at least 5 hours per week but not below 17 hours a week. Between 1981 and 1987, to control costs, the replacement rate was cut to 50 percent and there was a sharp drop in the number of people applying for a partial pension. Between 1987 and 1994, the replacement rate for lost income was raised back to 65 percent and the number of partial pensioners increased. In 1995, the replacement rate was lowered to 55 percent and the maximum reduction compensated for was reduced to 10 hours. The starting age for a partial pension was raised to 61. The partial pension program is funded by a wage tax levied on employers, currently at a rate of 0.5 percent.

Data for Sweden indicate that the number of workers taking the partial pension option has been higher during periods when the replacement rate was higher and when the unemployment rate was higher. A reduction of hours from 40 to 20 had been the most commonly chosen form of partial retirement, allowing employers to hire two workers to fill one job. Under the new rules, only a reduction of 10 hours will be compensated.

In many countries, labour force participation of older workers is restricted by labour agreements. In Sweden, labour agreements block Swedes from continuing to work past age 65 in union-organized occupations. In Sweden it is legal to set mandatory retirement at age 67, but this restriction on partial retirement may have little effect because of the effect of labour agreements at 65. The new Swedish social security system, scheduled to take effect in the year 2001, allows for partial retirement. If individuals choose partial retirement, their additional earnings and contributions will increase their future benefits. As well as in Norway and Sweden, partial pensions are available in the other Nordic countries of Denmark and Finland. Employers have no obligation in any of these countries to provide a part-time job to employees requesting it.

The 1992 Pension Reform Act in Germany makes it possible for workers to take partial pensions. Partial pensions can be claimed by women age 60 and for most men age 63. After age 65 for men and 62 for women there is no earnings limit for receipt of pension benefits so there is no reason to take a partial pension. The number of people who participated in this program is limited, and in 1996, new rules designed to make the system more flexible were introduced. The reduction of working time does not have to be on a weekly or a monthly basis; the part-time employment condition may be spread over several years. In other words, working full time for two years and not working at all for two years is allowed in this system. Partial pensions may now be claimed by workers age at least 55.

Netherlands. Partial pensions provided by employers are allowed by law for workers aged 55 to 70. Since 1994, part-time workers can no longer be excluded from pension coverage provided by an employer.

Belgium. A system of career breaks was introduced in Belgium in 1985 that allows for a form of partial retirement (OECD 1995a). Employees working at least three-quarters time may with the employer's agreement interrupt their working career or reduce their hours by up to half up to retirement age provided they are replaced by an unemployed person. In exchange, applicants for career breaks receive a guaranteed income. Workers over 50 can qualify for a partial career break up to retirement age. Replacement income is payable for only one such partial career break. The replacement income is set at a fixed amount, but that amount is twice the level for workers 50 and over than it is for younger workers. Belgium also has an earnings test for receipt of social security benefits. If a worker's earnings exceed a minimum, his or her social security benefit will be reduced by a third. If earnings exceed twice the minimum, the social security benefit is not paid.

France. France has two schemes of gradual retirement. The gradual early retirement scheme enables workers aged 55 and older to work half-time. In exchange for giving older workers half-time or 40 percent work, the contracting employer must agree to hire an unemployed person at least on a part-time basis. The wage replacement rate is 30 percent of the salary forfeited. The state assumes the full cost. In addition, employers are allowed a 50 percent reduction of social security contributions for each unemployed person hired in a part-time job. Today, partial retirement account for 50 percent of people taking early retirement. The second scheme, which was enacted in 1988, permits workers to claim part of their regular retirement pension provided they are at least 60, had contributed at least 37.5 years, and had worked in a single occupation. The fraction of the pension received is 30, 50, or 70 percent depending on the amount of reduction in work. In France at the end of 1995, 50,000 workers were on partial retirement.

United States. The US social security system allows partial retirement with full benefits for workers earning below a fixed ceiling. The earnings ceiling is fairly generous, and is indexed to wage growth. The earnings ceiling is $8,600 per year in 1997 for those age 62 to 65. While this level allows substantial part-time work for low wage workers, it does not permit full-time work. There is also an earnings test for people age 65 to 69, but the conditions are more liberal. The ceiling is higher and it scheduled to increase by much more than wage growth, from $13,500 in 1997 to $30,000 in 2002. Moreover, pension is reduced$1 for $3 of earnings, compared to $1 for $2 of earnings between 62 and 65.

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The principle conclusions of these brief, and rather cursory, notes are the following:

1. The generous nature of the early retirement provisions in Europe, together with the relatively easy access to them from the age of 55 onward, have undoubtedly contributed substantially to lower participation rates for older workers in Europe than in the United States.

2. Much of the driving force behind these provisions has been the high and increasing level of unemployment, especially for older workers. In some cases specific schemes have been introduced to wean the long-term unemployed on to the pension register. In other cases, specific early retirement schemes have been developed with a similar objective. And in some cases invalidity pensions have been awarded on grounds more to do with the labour market than with physical or mental disability. These concerns have not influenced policy in the United States, or much less so.

3. Pensions from public schemes make up a much larger proportion of retirees income in Europe than is the case in the United States, where private pensions from companies form a larger proportion. This raises a question of coordination between public and private providers, and the implicit and explicit practices and agreements developed between the social partners. In some European countries, occupational schemes have reinforced public provisions, in others not. Where they have not done so, for example in the United Kingdom, participation rates for older workers tend to be higher.

4. The rate at which pensions are reduced for each year of early retirement and increased for each year of deferred retirement may need to be reviewed. The current rates -- 6.7 per cent per year of early retirement, 4 per cent per year of deferred retirement -- may not reflect the full social costs nor be sufficient to induce an upward shift in the average actual age retirement.

5. There is probably little justification for retaining the earnings rule, except as it applies to invalidity benefits in the United States or to both invalidity and unemployment pensions in Europe: it does not apply to company pensions anyway and represents a disincentive to work.

6. The main weakness of the United States position is the absence of a developed system of assistance to the long-term unemployed, especially older workers. One the one hand this means that the transition from long-term unemployment to pension status is not a problem: on the other hand, many older workers who are long-term unemployed in the United States must face considerable hardship.

**READING**

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1. The term participation rate, as used in these notes, is defined as the numbers of employed, part-time and full-time, plus the number of unemployed in each age-group, expressed as a proportion of the population in the corresponding age-group.

2. Measured here as the age at which participation rates fall below 50 per cent.

3. See OECD 1995a